

PRIMEENERGY CORP
Form 10-Q
November 14, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the Quarterly Period Ended September 30, 2016

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the Transition Period From _____ to _____

Commission File Number 0-7406

PrimeEnergy Corporation

(Exact name of registrant as specified in its charter)

Delaware **84-0637348**
(State or other jurisdiction of **(I.R.S. employer**
incorporation or organization) **Identification No.)**
9821 Katy Freeway, Houston, Texas 77024
(Address of principal executive offices)
(713) 735-0000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings required for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of each class of the Registrant's Common Stock as of November 10, 2016 was:
Common Stock, \$0.10 par value 2,293,864 shares.

Table of Contents

PrimeEnergy Corporation

Index to Form 10-Q

September 30, 2016

	Page
<u>Part I - Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets – September 30, 2016 and December 31, 2015</u>	3
<u>Condensed Consolidated Statements of Operations – For the three and nine months ended September 30, 2016 and 2015</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income – For the nine months ended September 30, 2016 and 2015</u>	5
<u>Condensed Consolidated Statement of Equity – For the nine months ended September 30, 2016</u>	6
<u>Condensed Consolidated Statements of Cash Flows – For the nine months ended September 30, 2016 and 2015</u>	7
<u>Notes to Condensed Consolidated Financial Statements – September 30, 2016</u>	8-15
Item 2. <u>Management’s Discussion and Analysis of Financial Conditions and Results of Operations</u>	16-20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	21
<u>Part II - Other Information</u>	
Item 1. <u>Legal Proceedings</u>	21
Item 1A. <u>Risk Factors</u>	21
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
Item 3. <u>Defaults Upon Senior Securities</u>	22
Item 4. <u>Reserved</u>	22
Item 5. <u>Other Information</u>	22
Item 6. <u>Exhibits</u>	23-25
<u>Signatures</u>	26

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS** Unaudited

(Thousands of dollars, except per share amounts)

	September 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,397	\$ 9,750
Restricted cash and cash equivalents	3,103	3,513
Accounts receivable, net	7,534	9,543
Other current assets	886	815
Total Current Assets	16,920	23,621
Property and Equipment, at cost		
Oil and gas properties (successful efforts method), net	187,159	190,916
Field and office equipment, net	9,396	11,095
Total Property and Equipment, Net	196,555	202,011
Other Assets	452	629
Total Assets	\$ 213,927	\$ 226,261
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 10,480	\$ 12,355
Accrued liabilities	10,310	6,122
Current portion of long-term debt	68,186	3,059
Current portion of asset retirement and other long-term obligations	1,438	1,435
Derivative liability short-term	339	7
Due to related parties	22	
Total Current Liabilities	90,775	22,978
Long-Term Bank Debt	3,143	92,581
Asset Retirement Obligations	11,296	10,452
Derivative liability long-term	521	
Deferred Income Taxes	38,997	37,349

Total Liabilities		144,732	163,360
Commitments and Contingencies			
Equity			
Common stock, \$.10 par value; Authorized: 4,000,000 shares, issued: 3,836,397 shares		383	383
Paid-in capital		8,171	7,854
Retained earnings		98,467	92,878
Accumulated other comprehensive loss, net			(5)
Treasury stock, at cost; 1,542,433 shares and 1,531,713 shares		(45,889)	(45,380)
Total Stockholders' Equity	PrimeEnergy	61,132	55,730
Non-controlling interest		8,063	7,171
Total Equity		69,195	62,901
Total Liabilities and Equity		\$ 213,927	\$ 226,261

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents**PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS** Unaudited

(Thousands of dollars, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues				
Oil and gas sales	\$ 11,557	\$ 10,607	\$ 27,395	\$ 37,160
Realized gain on derivative instruments, net		5,494		14,939
Field service income	3,694	5,507	11,628	16,497
Administrative overhead fees	1,600	2,036	4,990	6,399
Unrealized loss on derivative instruments, net	(354)	(2,147)	(354)	(11,252)
Other income	2	1	59	52
Total Revenues	\$ 16,499	21,498	43,718	63,795
Costs and Expenses				
Lease operating expense	6,285	8,827	21,758	27,040
Field service expense	2,662	4,667	9,582	13,553
Depreciation, depletion, amortization and accretion on discounted liabilities	7,308	5,648	18,889	16,786
General and administrative expense	2,405	2,783	6,685	9,271
Total Costs and Expenses	18,660	21,925	56,914	66,650
Gain on Sale and Exchange of Assets	10,546	156	26,869	1,373
Income (Loss) from Operations	8,385	(271)	13,673	(1,482)
Other Income and Expenses				
Less: Interest expense	1,002	881	2,809	2,747
Add: Interest income		2		2
Income (Loss) Before Provision for Income Taxes	7,383	(1,150)	10,864	(4,227)
Provision (Benefit) for Income Taxes	2,667	(310)	3,036	(1,331)
Net Income (Loss)	4,716	(840)	7,828	(2,896)
Less: Net Income (Loss) Attributable to Non-Controlling Interests	(208)	(185)	2,239	(321)
Net Income (Loss) Attributable to PrimeEnergy	\$ 4,924	\$ (655)	\$ 5,589	\$ (2,575)
Basic Income (Loss) Per Common Share	\$ 2.15	\$ (0.28)	\$ 2.44	\$ (1.11)
Diluted Income (Loss) Per Common Share	\$ 1.62	\$ (0.28)	\$ 1.83	\$ (1.11)

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents**PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME** Unaudited

Nine Months Ended September 30, 2016 and 2015

(Thousands of dollars)

	2016	2015
Net Income (Loss)	\$ 7,828	\$ (2,896)
Other Comprehensive Income, net of taxes:		
Changes in fair value of hedge positions, net of taxes of \$(2) and \$27, respectively	5	43
Total other comprehensive income	5	43
Comprehensive Income (Loss)	7,833	(2,853)
Less: Comprehensive Loss Attributable to Non-Controlling Interest	(2,239)	(321)
Comprehensive Income (Loss) Attributable to PrimeEnergy	\$ 5,594	\$ (2,532)

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents**PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF EQUITY** Unaudited

Nine Months Ended September 30, 2016

(Thousands of dollars)

	Common Stock	Additional	Accumulated	Total		Total		Total	
	Shares	Paid in	Retained	Other	Treasury	Equity	Non-Controlling	Equity	
	Amount	Capital	Earnings	Income (Loss)	Stock	PrimeEnergy	Interest	Equity	
Balance at December 31, 2015	3,836,397	\$ 383	\$ 7,854	\$ 92,878	\$ (5)	\$ (45,380)	\$ 55,730	\$ 7,171	\$ 62,901
Repurchase 10,720 shares of common stock					(509)		(509)		(509)
Net Income			5,589				5,589	2,239	7,828
Other comprehensive income, net of taxes				5			5		5
Repurchase of non-controlling interests			317				317	(504)	(187)
Distributions to non-controlling interests								(843)	(843)
Balance at September 30, 2016	3,836,397	\$ 383	\$ 8,171	\$ 98,467	\$	\$ (45,889)	\$ 61,132	\$ 8,063	\$ 69,195

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents**PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS** Unaudited

Nine Months Ended September 30, 2016 and 2015

(Thousands of dollars)

	2016	2015
Cash Flows from Operating Activities:		
Net income (loss)	\$ 7,828	\$ (2,896)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion on discounted liabilities	18,889	16,786
Gain on sale of properties	(26,869)	(1,373)
Unrealized (gain) loss on derivative instruments, net	354	11,252
Provision (benefit) for deferred income taxes	1,648	(1,660)
Changes in assets and liabilities:		
Decrease in accounts receivable	2,009	675
(Increase) decrease in other assets	(612)	276
Decrease in accounts payable	(2,497)	(4,932)
Increase (decrease) in accrued liabilities	4,188	(4,601)
Increase in due to/from related parties	22	